



Public Works and
Government Services
Canada

Travaux publics et
Services gouvernementaux
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CANADIANS.

PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

QUARTERLY FINANCIAL REPORT

For the quarter ended December 31, 2012

1. Introduction

This Quarterly Financial Report should be read in conjunction with the *Main Estimates*, *Supplementary Estimates A* and *Supplementary Estimates B* as well as *Canada's Economic Action Plan 2012 (Budget 2012)*. It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

Public Works and Government Services Canada (PWGSC) provides common, central and shared services to other government departments, thereby enabling them to deliver programs and services to Canadians. As the federal government's primary common service provider, PWGSC acts as principal banker, accountant, central purchasing agent, linguistic authority and real property manager to all government departments, boards and agencies.

Further details on PWGSC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified-cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Authorities* compares PWGSC's spending authorities granted by Parliament to those used by the Department. Information in the *Statement of Authorities* is consistent with that in the *Main Estimates*, *Supplementary Estimates A* and *Supplementary Estimates B*.

The authority of Parliament is required before monies can be spent by the government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

As part of the Parliamentary business of supply, the *Main Estimates* must be tabled in Parliament on or before March 1 preceding the new fiscal year. Budget 2012 was tabled in Parliament on March 29, after the tabling of the *Main Estimates* on February 28, 2012. As a result, the measures announced in Budget 2012 could not be reflected in the 2012-13 *Main Estimates*.

In fiscal year 2012-13, frozen allotments were established by Treasury Board authority in departmental votes to prohibit the spending of funds already identified as savings measures in Budget 2012. In future years, the changes to departmental authorities will be implemented through the Annual Reference Level Update, as approved by Treasury Board, and reflected in the subsequent *Main Estimates* tabled in Parliament.

PWGSC uses the full accrual method of accounting to prepare and present its annual Consolidated Departmental Financial Statements that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on a modified cash basis of accounting.

1.3 PWGSC's Financial Structure

As a common service provider, PWGSC uses a variety of funding mechanisms to achieve its mandate. This includes budgetary authorities that are comprised of voted and statutory authorities, as well as non-budgetary authorities. The voted budgetary authorities include Operating Expenditures, Vote-Netted Revenues, Capital Expenditures and Contributions, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefits Plan and Payments in Lieu of Taxes (PILT). The non-budgetary authorities consist primarily of the Seized Property Working Capital Account.

PWGSC's complex financial structure may result in significant timing differences on a quarterly basis which are resolved by year end. These are summarized as follows:

- For the most part, PWGSC delivers its services on a cost recovery basis, generating revenues via Revolving Fund ("the Funds") organizations and Vote-Netted Revenue programs. These organizations and programs are mainly designed to provide services to other government departments, and are expected to recover the cost of their operations through their revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered, and thus revenues may be collected in a subsequent quarter.
- In addition, PWGSC manages a variety of real property projects that progress through phases from planning to funding and from procurement to construction. Historical trends have shown that expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal.
- PILT issued by PWGSC are funded through a statutory vote and paid on behalf of other participating federal departments. Payments are subsequently recovered from the participating departments and are recorded as statutory grants in the Public Accounts of Canada. A variation in "Other Budgetary Statutory Expenditures" can occur due to a difference between the time a Payment in Lieu of Taxes is made and the time it is recovered from another department.
- PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property. PWGSC recovers its costs from this Account when forfeiture and disposition have occurred.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

2.1 Significant changes to authorities

When compared to the same quarter in the previous year, PWGSC's **authorities available for use decreased by \$198.2 million**: from \$2,886.4 million in 2011-12 to \$2,688.3 million in 2012-13 as reflected in the *Statement of Authorities* (Table 1, page 9). Major reasons for the decrease are due primarily to:

Year-Over-Year Variances in Authorities Available for Use

(in millions of dollars)	Operating	Capital	Contribution	Budgetary Statutory Authorities	TOTAL VARIANCES
Rehabilitation of the Parliamentary Precinct	(1.9)	105.1			103.2
Federal Contaminated Sites	40.9				40.9
Transfer to Shared Services Canada	(125.9)	(4.4)		(8.9)	(139.2)
Major projects	(21.1)	(58.9)			(80.0)
Employee benefits reimbursed by Treasury Board	(42.4)	(0.1)		(9.1)	(51.6)
Strategic Review	(25.3)				(25.3)
Accommodation	(21.7)			0.1	(21.6)
Fix the pay initiative	3.2	(16.7)		(0.3)	(13.8)
Other	2.0	(8.7)	0.3	(4.4)	(10.8)
CUMULATIVE VARIANCE IN AUTHORITIES AVAILABLE FOR USE	(192.2)	16.3	0.3	(22.6)	(198.2)

Note: Groupings can change between quarters due to materiality of initiatives

The **net decrease of \$198.2 million** can be explained by:

Rehabilitation of the Parliamentary Precinct - approved budget of \$103.2 million

Continued implementation of the Long Term Vision and Plan (LTVP) for the Parliamentary Precinct to ensure preservation of the Parliament Buildings as heritage assets and national symbols. The funding is consistent with the overall strategic plan related to the five-year program of work under LTVP, which began in 2010-11. The projects for LTVP are on time and on budget.

Federal Contaminated Sites - increase of \$40.9 million

The **increase of \$40.9 million** in funding will secure remediation and assessment activities at federal contaminated sites under the custody of PWGSC in order to reduce human health and environmental risks and associated financial liabilities. The change of funding between fiscal years corresponds to the delivery schedule of multiple projects.

Transfer to Shared Services Canada (SSC) - decrease of \$139.2 million

Upon creation of SSC in 2011-12, PWGSC transferred its information technology service activities to SSC thus **decreasing its authorities for 2012-13 by \$139.2 million**.

Major projects - decrease of \$80.0 million

The **decrease of \$80.0 million** is primarily due to completion of major projects. These projects, completed in 2011-12, included buildings in the National Capital Area and rehabilitation of engineering assets such as bridges. These projects were required to preserve the useful life of crown-owned infrastructure.

Employee Benefits Reimbursed By Treasury Board - decrease of \$51.6 million

The **decrease of \$51.6 million** is due largely to additional funding obtained in 2011-12 for a one-time severance payment made to employees as a result of ratified changes to some collective agreements.

Strategic Review - decrease of \$25.3 million

In accordance with Budget 2011, PWGSC realized savings of \$16.5 million in 2011-12 and \$41.8 million in 2012-13, resulting in a net **decrease of \$25.3 million**. Savings are mainly due to the:

- implementation of more cost effective accommodation solutions in the National Capital Area;
- elimination of parking subsidies for Public Servants;
- reduction of the departmental overhead costs due to the wind-down of Consulting and Audit Canada in 2011-12; and
- streamlining of procurement services in order to support green procurement and fair access to government business.

Accommodation - decrease of \$21.6 million

As a common service provider, PWGSC provides accommodation for government departments and agencies. This **decrease of \$21.6 million** consists mainly of changes in other government department's accommodation requirements for 2012-13 fiscal year.

Fix the Pay System Initiative - decrease of \$13.8 million

The goal of this initiative which began in 2009-10 and ends in 2015-16, is to replace the Government of Canada's 40-year-old pay system for the benefit of all participating federal departments and agencies and to consolidate the Government of Canada pay services in Miramichi, New Brunswick. The 2012-13 **decrease of \$13.8 million** is due to the fact that the project is completing its planning phase.

Other - decrease of \$10.8 million

This **decrease of \$10.8 million** consists mostly of variances in miscellaneous projects and activities such as proceeds of sales in 2011-12 and the closure of the Telecommunications and Informatics Common Services Revolving Fund.

2.2 Significant changes to Net Expenditures – Net decrease of \$119.5 million

As presented in the *Departmental Budgetary Expenditures by Standard Object* (Table 2, page 10), the Total Net Budgetary Expenditures have **decreased by \$119.5 million** when compared to the same quarter of the previous year. Excluding the impact of information technology services transferred to Shared Services Canada, the proportion of planned and actual expenditures in each major expenditure category is consistent with the same quarter of the previous year.

When comparing annual planned expenditures for the third quarter, the expended portion represents 22% of annual planned expenditures, consistent with the same quarter of the previous year. Furthermore, year-to-date expenditures represent 70% of annual planned expenditures compared to 69% last year.

Total Net Budgetary Expenditures decreased by \$119.5 million (from \$2,005.1 million as of December 31, 2011 to \$1,885.6 million as of December 31, 2012). The decrease is largely explained as follows:

Year-Over-Year Variances in Expenditures

(in millions of dollars)	2012-13 Year to date used at quarter end	2011-12 Year to date used at quarter end	Year Over Year Variance	Explanation of variance
Personnel	815.7	979.8	(164.1)	<ul style="list-style-type: none"> • Transfer to Shared Services Canada • Winding down Consulting and Audit Canada • One-time payments for severance pay in 2011-12
Transportation and Communications	57.7	150.8	(93.1)	<ul style="list-style-type: none"> • Transfer to Shared Services Canada
Professional and Special Services	857.6	923.2	(65.6)	<ul style="list-style-type: none"> • Transfer to Shared Services Canada • Offset by expenditures in support of the Long Term Vision and Plan
Rental	852.8	809.7	43.1	<ul style="list-style-type: none"> • Increase in rental costs as per lease agreements
Repairs and Maintenance	587.3	672.3	(85.0)	<ul style="list-style-type: none"> • Transfer to Shared Services Canada • Completion and/or changes in expenditure levels on various projects
Acquisition of Land, Buildings and Works	218.6	183.1	35.5	<ul style="list-style-type: none"> • Timing of recovery from other government departments
Total Revenues Netted Against Expenditures	(2,093.4)	(2,312.7)	219.3	<ul style="list-style-type: none"> • Transfer to Shared Services Canada
Other Expenditures	589.3	598.9	(9.6)	<ul style="list-style-type: none"> • Miscellaneous expenditures such as acquisition of machinery and equipment
Total Net Budgetary Expenditures	1,885.6	2,005.1	(119.5)	

Variances in the preceding table are mainly attributable to:

Major decreases

- Transfer of information technology services to Shared Services Canada announced in August 2011, which remained part of PWGSC's accounts in the third quarter of 2011-12. The transfer caused a decrease in revenues and a decrease in expenditures mainly for personnel, transportation and communications, professional services, repairs and maintenance for information technology;
- Winding down of the Consulting and Audit Canada as a result of Strategic Review, announced on June 20, 2011. The winding down resulted in a decrease in expenditures for personnel and other expenditures;
- Severance payments paid out to employees in the second quarter of 2011-12, due to ratified changes to some collective agreements. Eligible employees could opt for a one-time payout of their accumulated severance pay; and
- Fluctuations in the level of expenditures in repairs and maintenance on buildings in the National Capital Area, which are, consistent with the normal planning horizon for managing infrastructure projects.

These decreases are partially offset by:

Major increases

- Rehabilitation of the Parliamentary Precinct which is in line with the planning phases of the project; and
- The acquisition of land, buildings and works which will ultimately be recovered from other government departments and an increase in rental costs as per lease agreements.

3. Risks and Uncertainties

PWGSC integrates risk management principles into business planning, decision-making and organizational processes to minimize negative impacts and maximize opportunities in service delivery. Based on PWGSC's 2012-13 assessment exercise, the following key risks were identified as having a potential financial impact:

Nearly 60 per cent of PWGSC's expenditures are financed through cost recovery. PWGSC must manage the financial uncertainty that results from its role as a common service provider, and its significant dependency on revenues collected from client departments. This becomes more challenging in periods of fiscal restraint.

To mitigate this risk, other departments' efforts to implement their savings measures will be closely monitored in order to determine the impacts on PWGSC. By strengthening its internal governance of saving commitments, through the implementation of a client service strategy, which establishes a consistent set of service values, practices and client service management tools, and through improved ongoing dialogue with clients, PWGSC is able to assess and respond to changes in demand for services from client departments. Thus far, the impacts on revenues have been manageable. The client service strategy has positioned PWGSC as an innovative and integrated common service delivery organization. The expected outcomes of a strong client focus are more clearly defined services and their method of delivery, more predictable service levels, better communication, and ultimately higher levels of client satisfaction.

Lastly, there is a risk that PWGSC's complex funding model may affect PWGSC's ability to allocate resources to address key priorities and various funding pressures. Mitigation measures have been taken, notably through the implementation of a more robust Financial Management Framework, the practice of sound integrated investment planning, and by implementing a more rigorous approach to the management of revenues, expenditures, forecasting and financial commitment monitoring. PWGSC continues to adhere to its budget management excellence practices, which have demonstrated positive results over the last three years.

4. Significant Changes to Operations, Personnel and Programs

Effective January 14, 2013 the Prime Minister appointed a new Associate Deputy Minister for PWGSC.

While PWGSC has not seen any significant changes to its operations, personnel and programs in the third quarter of 2012-13, PWGSC is continually transforming in order to deliver on its savings initiatives. Further information on these initiatives may be found in Section 5.

5. Budget 2012 Implementation

This section provides an overview of the savings measures announced in Budget 2012 that are being implemented in order to refocus government and programs; make it easier for Canadians and business to deal with their government; and modernize the back office functions.

PWGSC is committed to Budget 2012 cumulative and ongoing savings of \$177.6 million by 2018-19. For 2012-13, PWGSC is on target to achieve savings of \$1.5 million. Savings will increase to \$28.1 million in 2013-14 and \$85.3 million in 2014-15. Sound and robust management remains a high priority for PWGSC. This will ensure fiscal responsibility, value for money and contributes to a more effective use of departmental resources.

While many of the savings will be achieved in the first three years, the real property initiatives will be introduced over the next seven years as leases and occupancy agreements expire. With these changes, and building on progress made in recent years, PWGSC is transforming to better serve its clients through enhanced efficiency and effectiveness.

The savings initiatives are in three key areas:

1. Contributing to a more affordable public service by reducing office accommodation costs. This will be achieved by working with departments to **recapture real property office space** in response to reduced accommodations needs. PWGSC has developed **new real property space standards** consistent with leading practices, resulting in a reduction in the total amount of space for government office facilities by approximately 10%.
2. Phasing out cheques in favour of **mandatory direct deposit payments**. Receiver General payments made on behalf of the Government of Canada (e.g. employment insurance payments, income tax refunds, Government of Canada pay and pension cheques) which are currently issued as cheques will be transitioned to mandatory direct deposit by April 1, 2016. This is a more reliable, efficient, secure and greener payment method.
3. Achieving savings by **concentrating on core functions, streamlining processes and eliminating redundancies and overlap**, thereby ensuring value for taxpayer money. This will be achieved by:
 - **Modernizing information technology (IT) infrastructure to reduce costs.** For example, a single integrated database will be created to amalgamate two of PWGSC's major IT systems for finance and real property using industry-standard software.
 - **Transitioning to electronic publications.**
 - **Winding down of the Canadian Language Sector Enhancement Program**, scheduled to end in March 2013.
 - **Expanding online service delivery to Canadians and businesses.**

As detailed under Risks and Uncertainties (Section 3), as a common service provider, PWGSC must manage the uncertainty of its dependency on revenue provided by client departments. PWGSC has strengthened its governance of its savings commitments and is working closely with other departments through its client service network to identify these changing requirements and the impact on PWGSC. Thus far, the impact on revenues has been manageable.

For employees affected by job reductions due to Budget 2012 and previous federal budget savings measures, PWGSC has developed sound governance and a comprehensive human resource plan to address the impacts and assist them during this period. PWGSC ensures that all methods and strategies adopted to assist affected employees are in line with government directives, collective agreements and related statutes.

Approved by:

Michelle d'Auray, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada
March 1, 2013

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada
March 1, 2013

Table 1 - STATEMENT OF AUTHORITIES (unaudited)

For the quarter ended December 31, 2012

	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Total available for use for the year ending March 31, 2013 1) 2) 3)	Used during the quarter ended December 31, 2012	Year to date used at quarter end	Total available for use for the year ending March 31, 2012 1) 3)	Used during the quarter ended December 31, 2011	Year to date used at quarter end
<i>(In thousands of dollars)</i>						
Vote 1						
Gross Operating Expenditures	3,442,045	850,356	2,420,422	3,671,559	907,580	2,590,909
Vote-Netted Revenues	(1,393,294)	(412,404)	(1,000,766)	(1,430,668)	(415,926)	(1,058,277)
Net Operating Expenditures	2,048,751	437,952	1,419,656	2,240,891	491,654	1,532,632
Vote 5 - Capital Expenditure	518,241	137,286	319,082	501,978	130,232	253,510
Vote 10 - Contribution Expenditures	5,497	1,028	3,323	5,210	1,045	2,437
Statutory Authorities						
Revolving Fund Gross Expenditures	2,139,737	513,421	1,131,101	2,353,702	577,881	1,354,701
Revolving Fund Revenues	(2,117,295)	(495,402)	(1,092,641)	(2,317,942)	(572,177)	(1,254,452)
Revolving Fund Net Expenditures	22,442	18,019	38,460	35,760	5,704	100,249
Other Budgetary Statutory Expenditures ³⁾	93,330	6,033	105,086	102,589	12,534	116,271
Total Budgetary Statutory Authorities	115,772	24,052	143,546	138,349	18,238	216,520
Total budgetary authorities	2,688,261	600,318	1,885,607	2,886,428	641,169	2,005,099
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(9,659)	(10,216)	-	(4,100)	(11,743)
TOTAL AUTHORITIES	2,688,261	590,659	1,875,391	2,886,428	637,069	1,993,356

1) Includes only Authorities available for use and granted by Parliament at quarter-end.

2) Total available for use does not reflect measures announced in Budget 2012.

3) Consistent with presentation in the Main Estimates, Total available for use for the year for both 2012 and 2013, under Other Budgetary Statutory Expenditures, is presented net of planned PILT payments made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

Net decrease of \$198.2 Million

Table 2 - DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (unaudited)

For the quarter ended December 31, 2012

	Fiscal year 2012-2013			Fiscal year 2011-2012		
	Planned expenditures for the year ending March 31, 2013 1) 2) 3)	Expended during the quarter ended December 31, 2012	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2012 1) 3)	Expended during the quarter ended December 31, 2011	Year to date used at quarter end
<i>(in thousands of dollars)</i>						
Expenditures						
Personnel	1,040,073	271,351	815,733	1,192,275	314,772	979,802
Transportation and communications	93,018	20,597	57,660	228,778	55,020	150,763
Information	13,137	2,151	5,997	13,349	2,627	6,719
Professional and special services	1,544,008	392,397	857,555	1,670,203	393,599	923,227
Rentals	1,052,127	302,364	852,817	1,036,816	264,940	809,704
Repair and maintenance	1,292,847	237,164	587,307	1,278,661	280,834	672,308
Utilities, materials and supplies	220,361	94,655	167,955	215,658	94,606	166,935
Acquisition of land, buildings and works	239,084	85,907	218,594	253,654	89,101	183,144
Acquisition of machinery and equipment	83,432	7,739	17,976	116,248	13,611	26,245
Transfer payments 3)	5,497	(16,274)	38,624	44,162	(11,499)	41,389
Public debt charges	-	-	-	87	-	-
Other subsidies and payments	615,266	110,073	358,796	585,147	131,661	357,592
Total gross budgetary expenditures	6,198,850	1,508,124	3,979,014	6,635,038	1,629,272	4,317,828
Less revenues netted against expenditures						
Revolving Funds Revenues	(2,117,295)	(495,402)	(1,092,641)	(2,317,942)	(572,177)	(1,254,452)
Vote-Netted Revenues	(1,393,294)	(412,404)	(1,000,766)	(1,430,668)	(415,926)	(1,058,277)
Total revenues netted against expenditures	(3,510,589)	(907,806)	(2,093,407)	(3,748,610)	(988,103)	(2,312,729)
TOTAL NET BUDGETARY EXPENDITURES	2,688,261	600,318	1,885,607	2,886,428	641,169	2,005,099

1) Includes only Authorities available for use and granted by Parliament at quarter-end.

2) Total available for use does not reflect measures announced in Budget 2012.

3) Consistent with presentation in the Main Estimates, Planned expenditures for the year for both 2012 and 2013, under Transfer Payments, are presented net of PILT planned payments made to municipalities and the equivalent planned recoveries from other government departments. A description of PILT is provided in Section 1.3 of this report.

Net decrease of \$119.5 million